



## **U.S. TREASURY DEPARTMENT**

### **UPDATED ESTIMATES OF NEWLY HIRED EMPLOYEES ELIGIBLE FOR THE HIRE ACT TAX EXEMPTION**

*Report Includes State-by-State Estimates of Eligible Hires*

August 2, 2010

## **Updated Estimates of Newly Hired Employees Eligible for HIRE Act Tax Exemption**

### *Report Includes State-by-State Estimates of Eligible Hires*

This report updates and supplements the U.S. Department of Treasury's ongoing analysis of the number of newly hired workers whose employers could potentially qualify for tax exemptions under the Hiring Incentives to Restore Employment (HIRE) Act of 2010. The HIRE Act exempts employers from paying their 6.2 percent share of the Social Security payroll tax for the remainder of 2010 for eligible new hires, and provides a \$1,000 tax credit to employers if they retain eligible workers for 52 weeks. This new report provides monthly updated estimates of potential eligibility under the HIRE Act, including data through June 2010. According to the updated estimates, from February 2010 to June 2010, businesses hired 5.6 million new workers who had been unemployed for eight weeks or longer; making those businesses eligible to receive up to a projected \$10.4 billion in HIRE Act tax exemptions and credits for hiring the unemployed; these figures will grow over the year as additional eligible employees are hired.

This report includes state-by-state estimates of the number of newly hired workers whose employers potentially qualify for the HIRE Act tax exemption under the HIRE Act.

The HIRE Act, which President Obama signed into law in March 2010, is an example of a targeted, time-limited program that promotes private-sector job growth. The HIRE Act gives employers an incentive to accelerate hiring this year because the payroll tax exemption expires at the end of 2010.

The updated estimates extend previous Treasury analysis by including workers hired between May and June 2010. Among the key findings are:

- From February to June of 2010, an estimated 5.6 million workers who had been unemployed for eight weeks or longer were hired by employers who are eligible for the HIRE Act payroll tax exemption. This estimate includes 1.1 million workers who were hired between May and June 2010. (see Table 1)
- Newly hired workers whose employers are eligible for the HIRE Act payroll tax exemption constitute 11.8 percent of all workers who were unemployed for eight weeks or longer since the law took effect in February 2010. In other words, about one in eight workers who have been unemployed for eight weeks or longer are hired in the subsequent month. (see Table 2 and Figure 1)
- If the 5.6 million newly hired employees who are eligible for the HIRE Act tax exemption are employed for the rest of the year, their employers would be eligible for an estimated \$6.2 billion in payroll tax savings. Furthermore, if three quarters of the workers remain employed for 52 weeks, which is roughly consistent with historical turnover data for new hires, then their employers would receive another \$4.2 billion in tax credits with respect to these hires, bringing the potential tax savings to \$10.4 billion.

As more unemployed workers are hired during the year, the potential tax savings will rise. This figure is a projection of the maximum potential tax reductions, based on the aggregate number of hires and average wages of new hires.

- The 10 states with the largest number of workers whose employers potentially qualify for HIRE Act tax exemptions are: California (756,204 hires); Texas (364,619); New York (339,254), Florida (303,809); Illinois (260,098); Pennsylvania (247,975); Ohio (208,726); Georgia (195,280); Michigan (185,163); and Indiana (172,703). Table 5 reports the number of eligible new hires for each state.

In addition to these findings, Table 3 reports the demographic characteristics of the newly hired, eligible workers. Table 4 reports the industries in which the newly hired workers were employed prior to their period of unemployment and the industries in which the newly hired workers found jobs. About one fifth of newly hired exemption-eligible workers were previously employed in the construction industry. Similarly, employers in the construction industry have hired the largest share of exemption-eligible workers since February 2010, though that share is slightly lower than the share previously employed in construction.

Comprehensive data on the use of the HIRE Act from the Internal Revenue Service (IRS) will not be available until after employers file tax returns in 2011. In the interim, Treasury's Office of Economic Policy is providing monthly estimates of the number of newly hired workers whose employers potentially qualify for the HIRE Act tax exemption. These interim estimates are based on Treasury analysis of the Current Population Survey, a monthly survey conducted by the Bureau of Labor Statistics.

#### *Additional Background on the HIRE Act*

On March 18, 2010 President Obama signed into law the Hiring Incentives to Restore Employment (HIRE) Act of 2010. The HIRE Act provides employers an incentive to hire workers who have been unemployed for 60 days or longer by exempting wages paid to these workers from the employer's 6.2 percent contribution of Social Security payroll taxes for the remainder of 2010. In addition, the HIRE Act allows employers to claim a tax credit of up to \$1,000 for each newly hired qualifying worker who is retained for one year. If, for example, an employer hires an unemployed worker and pays that worker \$40,000 in salary this year, the HIRE Act tax exemption will reduce the employer's payroll tax obligations by up to \$2,480 this year (6.2 percent of \$40,000), and, if the employer retains that worker for 52 weeks, the employer will receive in addition a \$1,000 tax credit, bringing the total tax savings to as much as \$3,480.

Employers can claim the HIRE Act tax exemption for all wages paid to qualifying employees through the remainder of 2010.

## *Methodology*

The estimates in this report use the Current Population Survey, which is the basis for official government labor force statistics, such as the unemployment rate. The CPS consists of a representative sample of about 50,000 housing units a month, and labor force questions are asked concerning all working-age adult members in the household. The labor force questions relate to the worker's labor force status in the CPS reference week, which is the week that contains the 12th day of the month. The specific date that a worker transitions from one labor force status to another is not reported.

The rotation group design of the CPS allows us to create two-month linked samples by matching surveyed workers in one month to their records in the next month. This is possible for approximately three fourths of the CPS sample.

For this report, workers are identified as eligible for the tax exemption if they report that they have been unemployed for eight weeks or longer in the first month of the two month period. Eligible workers who report holding a job with a private employer in the second month of the two-month period are classified as qualifying for the tax exemption under the HIRE Act.

A full description of the methods used to construct these estimates can be found in the July 12, 2010 Treasury report, which is available at: <http://www.treas.gov/press/releases/docs/HIREAct-Analysis-7-11-2010-FINAL.pdf>

**Table 1: Estimated Number of New Hires  
for which Employer is Eligible for HIRE Act Tax Exemption**

Transition months	New Exemption-Eligible Hires	Average Weekly Earnings <sup>*</sup>
Feb-10 to Mar-10	1,385,937	\$476
Mar-10 to Apr-10	1,765,519	\$536
Apr-10 to May-10	1,319,394	\$524
May-10 to June-10	1,137,858	\$518
Total	5,608,708	\$514

Note: <sup>\*</sup> Average weekly earnings are estimated from the out-going rotation group subsample of the CPS. Earnings are reported on the new job in the second month of the linked sample (i.e., pertaining to March through June).

**Table 2: Monthly Transition Rates  
for Workers Unemployed 8 Weeks or More**

Months	Total Workers Unemployed ≥ 8 weeks in 1 <sup>st</sup> Month	Employment Status in 2 <sup>nd</sup> Month			
		Private Exemption- Eligible Employment *	Other employment **	Still unemployed	Out of labor force
Dec, '08 to Jan, '09	6,465,697	9.3%	2.0%	66.7%	22.0%
Jan to Feb, 2009	7,973,379	10.3%	2.3%	67.4%	20.1%
Feb to Mar, 2009	9,014,765	11.0%	2.6%	66.3%	20.0%
Mar to Apr, 2009	9,829,540	14.2%	3.2%	64.1%	18.5%
Apr to May, 2009	9,691,569	11.1%	2.2%	67.0%	19.7%
May to Jun, 2009	9,753,553	11.2%	2.0%	68.7%	18.1%
Jun to Jul, 2009	9,934,851	11.8%	2.6%	67.3%	18.4%
Jul to Aug, 2009	10,618,786	10.1%	2.3%	66.6%	20.9%
Aug to Sep, 2009	10,868,047	11.3%	3.7%	65.7%	19.3%
Sep to Oct, 2009	11,040,918	10.1%	2.5%	68.1%	19.2%
Oct to Nov, 2009	10,804,514	10.7%	1.8%	68.6%	18.9%
Nov to Dec, 2009	10,928,733	7.9%	1.6%	70.6%	19.9%
Dec, '09 to Jan, '10	10,821,742	8.3%	1.5%	69.8%	20.4%
Jan to Feb, 2010	11,904,522	8.9%	1.7%	71.2%	18.2%
Feb to Mar, 2010	12,201,584	11.4%	2.3%	67.2%	19.1%
Mar to Apr, 2010	12,546,709	14.1%	2.9%	63.7%	19.4%
Apr to May, 2010	11,807,334	11.2%	2.9%	66.4%	19.5%
May to Jun, 2010	10,959,952	10.4%	1.7%	66.6%	21.3%
Jun to Jul, 2010	10,597,536	-	-	-	-
Feb to June 2010 (Average)		11.8%	2.5%	66.0%	19.8%

Note: \* Exemption-eligible jobs include all private, non-self-employed jobs; \*\* Other employment includes government, self-employment, and employment without pay.

**Table 3: Demographic Characteristics of New Hires and Unemployed in 2010,  
by HIRE Act Tax Exemption Eligibility**

	Eligible for HIRE Act Tax Exemption					All Unemployed
	Feb to Mar	Mar to Apr	Apr to May	May to Jun	Total Feb to June	Feb to June
<u>Gender</u>						
Men	67.9%	68.8%	63.7%	62.2%	66.0%	60.1%
Women	32.1%	31.2%	36.3%	37.8%	34.0%	39.9%
<u>Age</u>						
less than 25	24.7%	19.9%	26.9%	27.8%	24.3%	25.1%
25 to 54	65.8%	70.9%	63.4%	60.1%	65.7%	60.7%
55+	9.5%	9.3%	9.7%	12.2%	10.0%	14.2%
<u>Race</u>						
White	77.8%	80.7%	77.1%	76.1%	78.2%	74.4%
Black	17.0%	13.5%	18.1%	15.3%	15.8%	18.6%
Other	5.2%	5.8%	4.8%	8.6%	6.0%	7.0%
<u>Hispanic origin</u>	23.1%	21.8%	21.2%	23.7%	22.4%	18.2%
<u>Education</u>						
Less than H.S.	24.2%	19.9%	17.1%	23.8%	21.1%	20.8%
H.S. diploma	40.3%	39.4%	43.7%	35.3%	39.8%	37.7%
Some college	21.6%	27.2%	27.0%	22.5%	24.8%	26.3%
Bachelor's degree	11.3%	10.9%	8.5%	15.9%	11.4%	11.7%
Beyond college	2.5%	2.7%	3.8%	2.5%	2.8%	3.5%

Note: Each panel presents the share of the sample in that row category. For example, 67.9 percent of the eligible hires from February to March were male and 32.1 percent were female, while 60.1 percent of all unemployed workers from February to May were male and 39.8 percent were female.

**Table 4: Industry of HIRE Act Exemption-Eligible New Hires and Unemployed,  
Total February to June, 2010**

	HIRE Act Exemption-Eligible New Hires		Former Industry of All Unemployed
	Former Industry	New Industry	
Construction	21.7%	19.1%	16.5%
Manufacturing	11.1%	9.3%	12.8%
Retail trade	13.3%	13.1%	13.3%
Transportation and utilities	5.3%	5.1%	4.2%
Financial activities	4.0%	4.0%	5.2%
Professional and business services	11.9%	13.0%	13.1%
Educational and health services	8.3%	9.0%	10.7%
Leisure and hospitality	11.0%	12.8%	11.9%
All other industries	13.3%	14.6%	12.3%

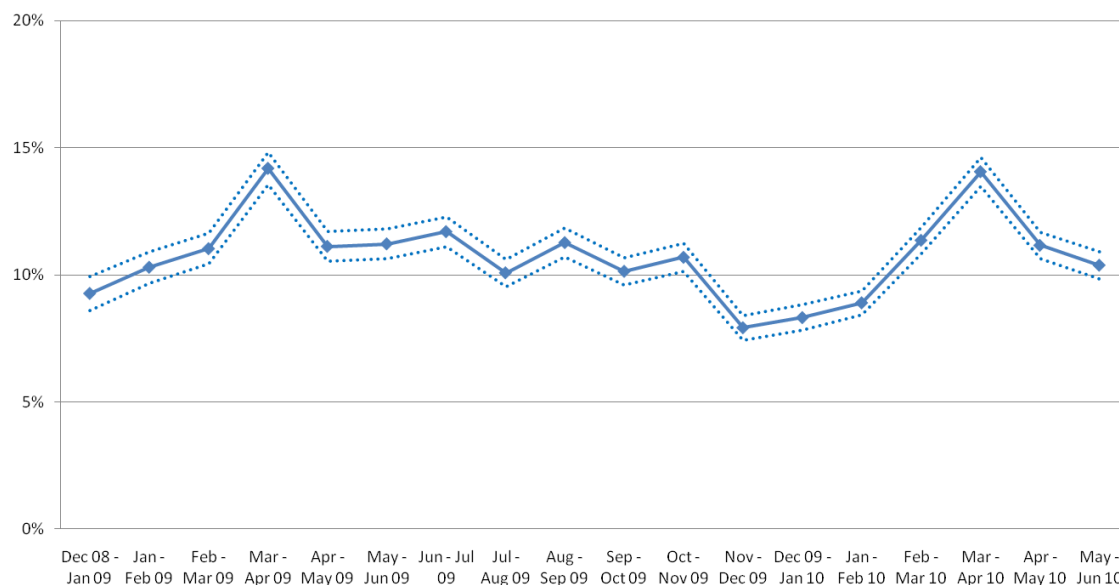
Note: All other industries include: Agriculture, forestry, fishing, and hunting, mining, information, wholesale trade and other services.



**Table 5: Number of New Hires for which Employer is  
Eligible for HIRE Act Tax Exemption, by State**

State	Number of eligible hires	State	Number of eligible hires
AL	74,184	MT	15,973
AK	19,926	NE	16,957
AZ	149,100	NV	69,254
AR	50,659	NH	21,733
CA	756,204	NJ	164,952
CO	103,310	NM	34,711
CT	63,335	NY	339,254
DE	12,411	NC	158,899
DC	9,494	ND	9,069
FL	303,809	OH	208,726
GA	195,280	OK	37,591
HI	17,953	OR	68,733
ID	30,131	PA	247,975
IL	260,098	RI	22,073
IN	172,703	SC	92,988
IA	53,733	SD	11,202
KS	48,256	TN	94,402
KY	83,787	TX	364,619
LA	70,343	UT	55,939
ME	32,963	VT	9,826
MD	86,544	VA	113,955
MA	83,954	WA	153,521
MI	185,163	WV	24,057
MN	98,799	WI	112,150
MS	41,313	WY	9,724
MO	146,974	<b>Total</b>	<b>5,608,708</b>

**Figure 1: Monthly Transition Rate to Private Exemption-Eligible Employment,  
For Workers Unemployed 8 Weeks or More**



Note: This chart presents data reported in Table 2. The solid line represents the estimated transition rates into private exemption-eligible employment for each month. The dashed lines represent the estimated transition rate plus and minus one standard error. Standard errors are computed using the sample weights provided by the CPS for the initial month of each two month linked sample.